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Honduras

Coffee

Annual

2004

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Report Highlights:

Coffee production in Honduras is forecast to maintain the same level of production of 2,753,000 sixty kilogram (kg) bags in 2004/2005. This follows several years of low international prices, which have stunted coffee production. However, there has been a recent improvement in the price of coffee, from \$51 in 2002 to \$66 per 46 kilograms bag in 2004. This is providing a greater incentive to farmers to pay better attention to their farms.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Tegucigalpa [HO1]
[HO]

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Section I - Situation and Outlook

Coffee production in Honduras is forecast to decline slightly to 2,753,000 sixty kilogram (kg) bags in 2004/2005 from an estimated 2,817,000 bags in 2003/2004. This follows several years of low international prices, which have stunted coffee production. However, there has been a recent improvement in the price of coffee, from \$51 in 2002 to \$66 per 46 kilogram bag in 2004. This is providing a greater incentive to farmers to pay better attention to their farms.

The coffee sector has been in crisis as a result of the steady decline in world coffee prices. As reported by the Honduran Coffee Institute (IHCAFE), it has caused 80 percent of small farmers and 20 percent of the large and medium producers to accumulate a high level of debt. Many farmers are unable to cover production costs and are not expanding the area planted. Many other coffee farmers, in order to reduce expenses, are forgoing the use of fertilizers, hiring fewer employees who are working shorter hours, picking fewer cherries, and pruning trees to allow a better growth and have more commercial value in three years.

PS&D Explanations:**Area/bearing trees/production:**

The PS&D shows in 2003 and 2004 that producers did not expand the area planted. This was due to low international prices. However, the revised production numbers for 2003 and 2004 and the number of bearing trees in 2004 are higher than previously estimated due to two factors: 1) 2004 was a high year in the bi-annual coffee cycle. With the bi-annual cycle, there was a slight but greater than expected increase in production. 2) The price increase has been an incentive to farmers to pay better attention to their farms and fertilize with improved injection techniques.

Production in 2005 is expected to decline somewhat in response to the bi-annual cycle. The cyclical yield decrease will be compensated to an extent with the price incentive, the application of new fertilizer techniques and an increase in purchases of seeds that is taking place.

Domestic consumption:

Domestic consumption continues to be small relative to crop production and exports of Honduran coffee. Only about 10-12 percent of the harvest remains in the country. FAS/Honduras estimates that domestic consumption increases about 3 percent annually. As such, the 2004/2005 total domestic consumption of coffee is forecast at 310,000 bags.

Exports:

Exports from Honduras during 2004/2005 are forecast to be 2,491,000 bags. This may change depending upon exporter purchases and financial incentives that the producer might receive to manage the farm and lower his production costs.

Coffee Production:

a. Sixty-one percent of Honduras' coffee production takes place in the mountains between 900 and 1200 meters above sea level, 23 percent in areas from 1200 to 1600 meters above sea level, and 16 percent in areas 500 to 900 meters above sea level. Most coffee producers prefer to sell the coffee without the pulp and at 12% humidity after a drying process. However, due to conditions where the coffee is grown, most producers have to sell the coffee in cherry, without added value, even though if they sell it dry they could earn more. This is due to the need to earn some immediate cash, rather than delay payment until after drying the bean. Intermediaries help in the commercialization by taking the harvest out to the road. Some intermediaries live in the same area of production and provide funds to the

producers for personal expenses or basic needs such as food. Most of the producers do not have access to credit in banks, so the intermediaries provide cash in various parts of the country.

Trade:

a. The flow of unregistered coffee going to neighboring countries decreased in 2003, and we estimate that only 50,000 bags went to Guatemala and 25,000 to El Salvador. Other years the unregistered coffee exports have been estimated at 500,000 bags.

b. One reason for the illegal trade is the captive market that the exporters have, since according to law they are the only ones that can export. Additionally, in Guatemala there is a higher capacity to negotiate futures markets. In Honduras, neither the producer nor the exporter has developed the means for futures trading. Subsequently, the only way to expedite a sale is through intermediaries, who frequently smuggle it to Guatemala. Guatemalan buyers can afford to pay higher prices for quality Honduran coffee and then mix it with Guatemalan beans, since Guatemalan coffee is often sold at a premium in the international market. Meanwhile, Honduran coffee receives a price discount in the international market.

c. Export prices in 2003/2004 increased from \$51 in 2002 to \$66 per 46-kilogram bag in 2004. In 2003, major importers of Honduran coffee were Germany, the United States, Belgium, Japan, France, Korea Holland, Italy and Spain.

Effect of Low Coffee Prices on Honduras' Economy:

a. At the national level, even with low prices, the sector provides employment to 30 percent of the population and generates much-needed foreign exchange. Two million people directly participate in the coffee harvest. They are paid \$71 million, distributed nationwide over a period of four months. Besides picking the beans, there are other activities such as fertilizer application, shadow control, cleaning, drying, commercialization and transport, which provide other employment. At the local level, the coffee crisis creates unemployment and lower cash wages.

b. At the macroeconomic level, low prices affect the GDP and BOP. Coffee exports have been a major source of foreign exchange in recent years, as shown below.

<u>Year</u>	<u>Foreign Exchange earned in US\$</u>
1997	326.3
1998	429.8
1999	256.1
2000	339.4

c. The Government of Honduras, realizing the importance of a vital coffee sector and the high level of indebtedness of many of the country's 100,000 coffee producers, has provided coffee producers loans which amount to \$75 million. In addition, the GOH authorized a trusteeship as a mechanism for debt payment. Through this mechanism the producers contribute \$4.00 per 46-kg bag. IHCAFE collects these funds to create a guarantee fund to pay the loan and provide inputs for the farm. IHCAFE justifies this program saying that if production is allowed to decrease unemployment will increase.

d. According to IHCAFE, what is needed is to introduce new ways to diversify coffee through added value. In addition, it is developing programs to help coffee producers diversify their farm production to include food products, including fish, poultry, bees or fruit. Besides providing needed food, these diversification activities will mean that producers do not need to buy those products and could generate some other income.

According to latest data from the Honduran Central Bank, imports of roasted and soluble coffee for domestic consumption come mainly from the United States. During 2002, there was an increase of 40 percent in volume and 13 percent in value compared to 2001. In 2002, imports totaled 271 metric tons valued at \$139,140. Other coffee exporters to Honduras are El Salvador, Guatemala and Mexico to a lesser degree. We expect that competition to U.S.-supplied coffee will be greater as Central American companies sell their soluble coffee in machines located at commercial centers and office buildings.

As the coffee crisis continues in Central America, the IDB, World Bank and the United States Government through USDA and USAID are providing assistance to develop specialty coffee, niche markets and diversify into non-traditional exports to promote a wider range of income generation. A new initiative has been developed by IHCAFE and various international organizations. Honduras participates in the "Cup of Excellence" which is an international competition of quality coffee. Through this competition Honduras hopes to find niche markets for its coffee.

Further information about coffee in Honduras can be found at www.cafedehonduras.hn

Section II – Statistical Tables

PSD Table
Coffee, Green

PSD Table

Country Honduras
Commodity Coffee, Green

	(1000 HA)		(MILLION TREES)		(1000 60 KG B)	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official	Estimate [New]	USDA Official	Estimate [New]	USDA Official	Estimate [New]
Market Year Begin	10/2002	10/2002	10/2003	10/2003	10/2004	MM/YYYY
Area Planted	248	248	248	248	0	248 (1000 HA)
Area Harvested	184	184	208	184	0	184 (1000 HA)
Bearing Trees	747	747	761	769	0	753 (MILLION TREES)
Non-Bearing Trees	125	125	128	128	0	131 (MILLION TREES)
TOTAL Tree Population	872	872	889	897	0	884 (MILLION TREES)
Beginning Stocks	262	262	184	193	199	133 (1000 60 KG BAGS)
Arabica Production	2600	2661	2800	2817	0	2753 (1000 60 KG BAGS)
Robusta Production	0	0	0	0	0	0 (1000 60 KG BAGS)
Other Production	0	0	0	0	0	0 (1000 60 KG BAGS)
TOTAL Production	2600	2661	2800	2817	0	2753 (1000 60 KG BAGS)
Bean Imports	0	0	0	0	0	0 (1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0	0	0 (1000 60 KG BAGS)
Soluble Imports	0	0	0	0	0	0 (1000 60 KG BAGS)
TOTAL Imports	0	0	0	0	0	0 (1000 60 KG BAGS)
TOTAL SUPPLY	2862	2923	2984	3010	199	2886 (1000 60 KG BAGS)
Bean Exports	2392	2438	2484	2576	0	2491 (1000 60 KG BAGS)
Roast & Ground Exports	0	0	0	0	0	0 (1000 60 KG BAGS)
Soluble Exports	0	0	0	0	0	0 (1000 60 KG BAGS)
TOTAL Exports	2392	2438	2484	2576	0	2491 (1000 60 KG BAGS)
Rst,Ground Dom. Consur	286	292	301	301	0	310 (1000 60 KG BAGS)
Soluble Dom. Consum.	0	0	0	0	0	0 (1000 60 KG BAGS)
TOTAL Dom. Consumpti	286	292	301	301	0	310 (1000 60 KG BAGS)
Ending Stocks	184	193	199	133	0	85 (1000 60 KG BAGS)
TOTAL DISTRIBUTION	2862	2923	2984	3010	0	2886 (1000 60 KG BAGS)

Export Trade Matrix
Coffee, Green

Export Trade Matrix

Country Honduras

Commodity Coffee, Green

Time Period MY Units: 60 Kg Bags

Exports for: 2003 2004

U.S. 302,729 U.S. 309,000

Others		Others	
Europe	1,740,785.00		1,848,800
Japan	155,683		164,000
Korea	138,644		146,000
Canada	17,787		26,000
Guatemala	50,000		50,000
El Salvador	25,000		25,000

Total for Others 2127899 2,259,800

Others not Listed 7,168 7,200

Grand Total 2437796 2576000